

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Waldron	County Hillsdale
Audit Date 2/28/05	Opinion Date 9/4/05	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Willis & Jurasek, P.C.			
Street Address 2545 Spring Arbor Road	City Jackson	State MI	ZIP 49203
Accountant Signature <i>Willis & Jurasek, P.C.</i>		Date 9/28/05	

Village of Waldron

Financial Statements
And Independent Auditors' Report

Year Ended February 28, 2005

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Independent Auditors' Report

Village Council
Village of Waldron
Waldron, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Village of Waldron as of and for the year ended February 28, 2005, as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, and each major fund of the Village of Waldron as of February 28, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 4, 2005, on our consideration of the Village's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The Village of Waldron has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the financial statements.

The budgetary comparison information on pages 20 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.,

September 4, 2005

**Reporting Based on an Audit of Financial Statements
Performed in Accordance With
Government Auditing Standards**

Village Council
Village of Waldron
Waldron, Michigan

We have audited the financial statements of the governmental activities, business type activities and each major fund of the Village of Waldron as of and for the year ended February 28, 2005, which collectively comprise the Village of Waldron's basic financial statements and have issued our report thereon dated September 4, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.


Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Villages' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Village Council, and State agencies, and is not intended to be and should not be used by anyone other than those specified parties.



Willis & Jurasek, P.C.

September 4, 2005

Village of Waldron
Statement of Net Assets
February 28, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<u>Assets</u>			
Cash	\$ 420,027	\$ 215,467	\$ 635,494
Internal balances	(33,628)	33,628	-
Accounts receivable	-	12,239	12,239
Taxes receivable	6,962	-	6,962
Due from other governmental units	42,639	-	42,639
Restricted assets	-	67,517	67,517
Capital assets			-
Non-depreciable assets	7,500	8,331	15,831
Depreciable assets, net	103,583	1,952,331	2,055,914
Total assets	<u>547,083</u>	<u>2,289,513</u>	<u>2,836,596</u>
Liabilities:			
Other current liabilities	1,911	9,642	11,553
Non-current liabilities:			-
Due within one year	-	6,300	6,300
Due in more than one year	-	636,500	636,500
Total liabilities	<u>1,911</u>	<u>652,442</u>	<u>654,353</u>
Net assets:			
Invested in capital assets, net of related debt	111,083	1,317,862	1,428,945
Restricted for:			
Debt service	-	67,517	67,517
Unrestricted	434,089	251,692	685,781
total net assets	<u>\$ 545,172</u>	<u>\$ 1,637,071</u>	<u>\$ 2,182,243</u>

See Notes to Financial Statements.

Village of Waldron
Statement of Activities
February 28, 2005

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government							
Governmental activities:							
General government	\$ 115,327	\$ -	\$ -	\$ -	\$ (115,327)	\$ -	\$ (115,327)
Public safety	21,105	9,223	-	-	(11,882)	-	(11,882)
Public works	35,829	-	56,181	-	20,352	-	20,352
Recreation and culture	3,000	353	-	-	(2,647)	-	(2,647)
Other	75	-	-	-	(75)	-	(75)
Total governmental activities	175,336	9,576	56,181	-	(109,579)	-	(109,579)
Business-type activities:							
Water	85,265	73,540	-	-	-	(11,725)	(11,725)
Sewer	123,138	100,559	-	205,300	-	182,721	182,721
Total business-type activities	208,403	174,099	-	205,300	-	170,996	170,996
Total primary government	\$ 383,739	\$ 183,675	\$ 56,181	\$ 205,300	\$ (109,579)	170,996	61,417
General Revenues:							
Property taxes, levied for general purposes					70,317	-	70,317
Interest and investment earnings					1,840	1,753	3,593
Unrestricted grants and contributions					66,515	-	66,515
Miscellaneous					29,464	259	29,723
Total general revenues and transfers					168,136	2,012	170,148
Change in net assets					58,557	173,008	231,565
Net assets - beginning of year					486,615	1,464,063	1,950,678
Net assets - end of year					\$ 545,172	1,637,071	2,182,243

Village of Waldron

Balance Sheet

Governmental Funds

February 28, 2005

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Total</u>
<u>Assets</u>				
Cash	\$ 239,700	\$ 143,586	\$ 36,741	\$ 420,027
Receivables:				
Due from other funds	1,325	6,868	-	8,193
Accounts receivable	-	-	-	-
Taxes receivable	6,962	-	-	6,962
Due from other governmental units	32,981	7,605	2,053	42,639
Total assets	<u>\$ 280,968</u>	<u>\$ 158,059</u>	<u>\$ 38,794</u>	<u>\$ 477,821</u>
<u>Liabilities and Fund Equity</u>				
Liabilities:				
Due to other funds	\$ 32,996	\$ 7,500	\$ 1,325	\$ 41,821
Other liabilities	1,911	-	-	1,911
Total liabilities	<u>34,907</u>	<u>7,500</u>	<u>1,325</u>	<u>43,732</u>
Fund Balances:				
Unrestricted	246,061	150,559	37,469	434,089
Total fund balances	<u>246,061</u>	<u>150,559</u>	<u>37,469</u>	<u>434,089</u>
Total liabilities and fund balances	<u>\$ 280,968</u>	<u>\$ 158,059</u>	<u>\$ 38,794</u>	<u>\$ 477,821</u>

See Notes to Financial Statements.

Village of Waldron

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets
of Governmental Activities on the Statement of Net Assets
February 28, 2005

Total Fund Balances - Governmental Funds \$ 434,089

Amounts reported for governmental activities in the Statement
of Net Assets are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in the funds.

The cost of the capital assets is

\$ 138,860

Accumulated depreciation is

(27,778)

111,082

Total Net Assets - Governmental Activities \$ 545,171

Village of Waldron
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended February 28, 2005

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Total</u>
Revenues:				
Taxes	\$ 70,317	\$ -	\$ -	\$ 70,317
Intergovernmental	66,515	44,246	11,935	122,696
Interest and rentals	1,102	738	-	1,840
Other revenue	36,046	1,497	1,496	39,039
Total revenue	<u>173,980</u>	<u>46,481</u>	<u>13,431</u>	<u>233,892</u>
Expenditures:				
General government	111,067	-	-	111,067
Public safety	21,105	-	-	21,105
Public works	14,094	11,543	6,741	32,378
Recreation and culture	3,000	-	-	3,000
Capital outlay	75	-	-	75
Total expenditures	<u>149,341</u>	<u>11,543</u>	<u>6,741</u>	<u>167,625</u>
Revenue Over (Under) Expenditures	<u>24,639</u>	<u>34,938</u>	<u>6,690</u>	<u>66,267</u>
Other Financing Sources (Uses):				
Transfers in	-	-	11,157	11,157
Transfers out	-	(11,157)	-	(11,157)
Total other financing sources (uses)	<u>-</u>	<u>(11,157)</u>	<u>11,157</u>	<u>-</u>
Net Changes in Fund Balances	24,639	23,781	17,847	66,267
Fund Balances - Beginning of Year	<u>221,422</u>	<u>126,778</u>	<u>19,622</u>	<u>367,822</u>
Fund Balances - End of Year	<u>\$ 246,061</u>	<u>\$ 150,559</u>	<u>\$ 37,469</u>	<u>\$ 434,089</u>

See Notes to Financial Statements.

Village of Waldron

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities Governmental Funds Year Ended February 28, 2005

Net Change in Fund Balances - Total Governmental Funds	\$	66,267
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Amounts reported for governmental activities in the Statement
of Activities are different because:

Governmental funds report capital outlays as expenditures; in the
Statement of Activities, these costs are allocated over their estimated
useful lives as depreciation.

Depreciation expense	\$	(7,711)	
Capital outlay		<u>-</u>	<u>(7,711)</u>

Change in Net Assets of Governmental Activities	\$	<u>58,556</u>
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Village of Waldron
Statement of Net Assets
Proprietary Funds
February 28, 2005

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Assets			
Current assets:			
Cash	\$ 11,340	\$ 204,127	\$ 215,467
Due from other funds	2,320	31,308	33,628
Accounts receivable	5,749	6,490	12,239
Restricted assets	-	67,517	67,517
Capital assets:			-
Non-depreciable assets	-	8,331	8,331
Depreciable assets, net	122,915	1,829,416	1,952,331
Total assets	<u>142,324</u>	<u>2,147,189</u>	<u>2,289,513</u>
 Liabilities:			
Current liabilities (payable from current assets):			
Accrued interest	-	9,642	9,642
Current portion of bonds payable	-	6,300	6,300
	<u>-</u>	<u>15,942</u>	<u>15,942</u>
 Non-current liabilities:			-
Bonds payable	-	636,500	636,500
 Total liabilities	<u>-</u>	<u>652,442</u>	<u>652,442</u>
 Net Assets:			-
Invested in capital assets, net of related debt	122,915	1,194,947	1,317,862
Restricted	-	67,517	67,517
Unrestricted	19,409	232,283	251,692
Total net assets	<u>\$ 142,324</u>	<u>\$ 1,494,747</u>	<u>\$ 1,637,071</u>

See Notes to Financial Statements.

Village of Waldron
Statement of Revenues, Expenses and
Changes in Retained Earnings - Proprietary Funds
Year Ended February 28, 2005

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Operating Revenues:			
Charges for services	\$ 73,540	\$ 100,559	\$ 174,099
Operating Expenses:			
Maintenance and operating	80,570	66,569	147,139
Depreciation	4,695	36,309	41,004
Total operating expenses	85,265	102,878	188,143
Operating Income (Loss)	(11,725)	(2,319)	(14,044)
Non Operating Revenues (Expenses):			
Capital grants	-	205,300	205,300
Interest income	60	1,693	1,753
Miscellaneous income	115	144	259
Equity transfers in	-	3,041	3,041
Equity transfers out	(3,041)	-	(3,041)
Interest expense	-	(20,260)	(20,260)
Total non operating revenues (expenses)	(2,866)	189,918	187,052
Net Income (Loss)	(14,591)	187,599	173,008
Net Assets - Beginning of Year	156,915	1,307,148	1,464,063
Net Assets - End of Year	\$ 142,324	\$ 1,494,747	\$ 1,637,071

See Notes to Financial Statements.

Village of Waldron
Combined Statement of Cash Flows
All Proprietary Fund Types
Year Ended February 28, 2005

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Cash Flows From Operating Activities			
Operating income	\$ (11,725)	\$ (2,319)	\$ (14,044)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	4,695	36,309	41,004
Non-operating income	115	144	259
Change in:			
Accounts receivable	887	2,435	3,322
Due from other funds	1,347	(2,168)	(821)
Due to other funds	-	-	-
Other liabilities	-	(8,746)	(8,746)
Net cash provided by operating activities	<u>(4,681)</u>	<u>25,655</u>	<u>20,974</u>
Cash Flows From Capital and Related Financing Activities:			
Construction of capital assets	-	(218,626)	(218,626)
Principal paid on bonds and notes	-	(6,200)	(6,200)
Interest paid on bonds and notes	-	(20,260)	(20,260)
Equity transfers	(3,041)	3,041	-
Capital grant received	-	205,300	205,300
Net cash provided by capital and related financing activities	<u>(3,041)</u>	<u>(36,745)</u>	<u>(39,786)</u>
Cash Flows From Investing Activities:			
Interest income	<u>60</u>	<u>1,693</u>	<u>1,753</u>
Total cash provided by investing activities	<u>60</u>	<u>1,693</u>	<u>1,753</u>
Net Increase in Cash and Cash Equivalents	(7,662)	(9,397)	(17,059)
Cash and Cash Equivalents - Beginning of Year	<u>19,002</u>	<u>281,041</u>	<u>300,043</u>
Cash and Cash Equivalents - End of Year	<u>\$ 11,340</u>	<u>\$ 271,644</u>	<u>\$ 282,984</u>

See Notes to Financial Statements.

Village of Waldron
Notes to Financial Statements

1. Summary of Significant Accounting Policies

Description of Village Operations

The Village of Waldron operates under a Council form of government and provides services to its residents in many areas including public safety, law enforcement, community enrichment, and development and human service. The criteria established by GASB for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financial relationships.

Reporting Entity

Generally accepted accounting principles require the reporting entity to include Village of Waldron (the primary government).

Adoption of New Accounting Standards

During the year ended February 28, 2005, the Village adopted GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Government*, issued June 1999; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, issued in 2001.

The following table shows beginning net assets restated for the effects of implementation of GASB No. 34:

Fund balance at February 29, 2004—Governmental Funds	\$ 367,822
Net capital assets (restated)	<u>118,793</u>
Restated net assets – July 1, 2003	<u>\$ 486,615</u>

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Village of Waldron
Notes to Financial Statements

1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Fund-Based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

General Fund – This fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Street Fund – This fund is a special revenue fund. It accounts for revenues received primarily from the State of Michigan Department of Transportation and accounts for street activity relating to the major street functions of the Village.

Local Street Fund – This fund is a special revenue fund. It accounts for revenues received primarily from the State of Michigan Department of Transportation and accounts for street activity relating to the local street functions of the Village.

Village of Waldron
Notes to Financial Statements

1. Summary of Significant Accounting Policies (Continued)

The government reports the following major proprietary funds:

Water Fund - The Water Fund accounts for the water production, purification, and distribution systems of the Village.

Sewer Fund – The Sewer Fund accounts for the activities of the government's sewage collection and treatment systems.

Additional Financial Statement Presentation Information - Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the electric, water and sewer enterprise funds and of the government's internal service fund are charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, and certificates of deposit. Deposits are carried at cost.

Deposits of the Village are at three banks in the name of the Village of Waldron. Michigan Compiled Laws, section 129.91 authorizes the Village to deposit and invest in the accounts of Federally insured banks, insured credit unions and savings and loan associations; bonds and other direct obligations of the United States, or an agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; banker's acceptance of the United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligation of the State of Michigan or Political Subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government of Michigan. Financial institutions eligible for deposit of funds must maintain an office in Michigan. The Village's deposits are in accordance with statutory authority.

Receivables and Payables – All receivables are reported at their net value. They are reduced, where appropriate, by the estimated portion that is expected to be uncollectible.

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Village of Waldron
Notes to Financial Statements

1. Summary of Significant Accounting Policies (Continued)

Restricted Assets – Certain proceeds of the Enterprise Funds' revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Also, certain resources have been set aside to fund capital asset replacements.

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	50
Vehicles	5 - 10
Equipment	5 - 20
Plant and systems	10 - 50

Long-Term Obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Property Taxes - The government's property taxes are levied each July 1 on the taxable valuation of property located in the Village as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through September 30; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Hillsdale County.

Assessed values as established annually by the government, and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. Real and personal property in the Village for 2004 had a taxable value of approximately \$5,837,000 (not including properties subject to Industrial Facilities Tax exemption). The government's general operating tax rate for fiscal year 2004-05 was 11.4112 mills.

Village of Waldron
Notes to Financial Statements

2. Stewardship, Compliance and Accountability

The Village follows these procedures in establishing budgetary data reflected in the financial statements:

- a) The Village submits a proposed operating budget for the fiscal year commencing March 1.
- b) The public hearing is conducted by the Village to obtain taxpayer comments.
- c) The budget is then legally enacted through passage of the appropriations act.
- d) The budget is adopted on the governmental activity basis and control is exercised at the activity level.
- e) The budget for the general fund is prepared on a basis consistent with generally accepted accounting principles.
- f) Appropriations lapse at year end and therefore cancel all encumbrances. These appropriations are reestablished at the beginning of the following year.
- g) Once the budget is approved, it can be amended at the function and fund level only by approval of a majority of the members of the Village Council. Amendments are presented to the council at their regular meetings. Each amendment must have council approval. Such amendments are made before the fact, are reflected in the official minutes of the Village Council, and are not made after fiscal year-end as dictated by law.

3. Legal Non-Compliance – Non Budgeted Funds

During the year ended February 28, 2005, budgets were not adopted for the following special revenue funds:

Major Street
Local Street

4. Legal Non-Compliance – Chart of Accounts

The Village failed to establish and maintain the uniform chart of accounts as required by Public Act 2 of 1968, as amended by Public Act 451 of 1982.

5. Cash and Cash Equivalents

The balance sheet caption, "Cash" includes demand accounts and certificates of deposit.

At year-end, the Village's deposits were reported in the basic financial statements in the following categories:

	Governmental Activities	Proprietary Funds	Total
Cash and investments	\$ 420,027	\$ 282,984	\$ 703,011

At year-end, the carrying amount of the Village's deposits was \$703,011 and the bank balance was \$703,311. Of the balances, \$116,040 was covered by federal depository insurance in the Village's name. The remaining balance is uninsured and uncollateralized.

Village of Waldron
Notes to Financial Statements

6. Capital Assets

Capital assets activity for the year ended February 28, 2005 was as follows:

Primary Government	Beginning Balance	Additions	Disposals and Adjustments	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 7,500	\$ -	\$ -	\$ 7,500
Total capital assets not being depreciated	7,500	-	-	7,500
Capital assets being depreciated:				
Buildings and improvements	54,000	-	-	54,000
Equipment and vehicles	77,360	-	-	77,360
Total capital assets being depreciated	131,360	-	-	131,360
Accumulated depreciation:				
Buildings and improvements	4,899	1,633	-	6,532
Equipment and vehicles	15,167	6,078	-	21,245
Total accumulated depreciation	20,066	7,711	-	27,777
Total capital assets being depreciated - net	111,294	(7,711)	-	103,583
Governmental activities capital assets - net	\$ 118,794	\$ (7,711)	\$ -	\$ 111,083
Business-Type Activities				
Capital assets not being depreciated:				
Land	\$ 8,331	\$ -	-	\$ 8,331
Construction in progress	1,463,322	218,626	1,681,948	-
Total capital assets not being depreciated	1,471,653	-	-	8,331
Capital assets being depreciated:				
Water system	307,995	-	-	307,995
Sewer system	538,313	1,681,948	-	2,220,261
Total capital assets being depreciated	846,308	1,681,948	-	2,528,256
Accumulated depreciation	534,921	41,004	-	575,925
Total capital assets being depreciated - net	311,387	1,640,944	-	1,952,331
Business-type activities capital assets - net	\$1,783,040	\$1,640,944	\$ -	\$1,960,662

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General government	\$ 4,260
Public works	3,451
Total depreciation expense – governmental activities	\$ 7,711
Business-Type Activities:	
Sewer and Water	\$ 41,004

Village of Waldron
Notes to Financial Statements

7. Receivables

Receivables of the governmental activities of the primary government at February 28, 2005, consist of the following:

Other governmental units (primarily the State of Michigan)	\$ 42,639
Delinquent taxes	<u>6,962</u>
	<u>\$ 49,601</u>

8. Interfund Receivables, Payables and Transfers

The City reports interfund balances between many of its funds. The sum of all balances presented in the tables below agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds and proprietary funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

	<u>Receivable</u>	<u>Payable</u>
Due from/to other funds:		
General Fund	\$ 1,325	\$ 32,996
Water Fund	2,320	-
Sewer Fund	31,308	-
Major Street	6,868	7,500
Local Street	-	<u>1,325</u>
	<u>\$ 41,821</u>	<u>\$ 41,821</u>
	<u>Transfers In</u>	<u>Transfers Out</u>
Transfers:		
Major Street	\$ 11,157	\$ -
Local Street	-	<u>11,157</u>
	<u>\$ 11,157</u>	<u>\$ 11,157</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Village of Waldron
Notes to Financial Statements

9. Long-Term Debt

The Village issued \$649,000 of revenue bonds dated June 17, 2003 at 4.5% interest to provide funds for the construction of a sewer project. Income derived from the constructed assets will be used to repay the revenue bonds and the debt is recorded in the Sewer Fund.

Enterprise activities - long-term obligation activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Business-Type Activities:					
Bonds	\$ 649,000	\$ -	\$ 6,200	\$ 642,800	\$ 6,300
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>		
2006	\$ 6,300	\$ 28,900	\$ 35,200		
2007	6,300	28,600	34,900		
2008	6,400	28,400	34,800		
2009	7,500	28,000	35,500		
2010	7,500	27,700	35,200		
2011-2014	41,800	133,400	175,200		
2015-2019	53,000	123,000	176,000		
2020-2024	67,600	109,900	177,500		
2025-2029	82,900	93,300	176,200		
2030-2034	104,100	72,800	176,900		
2035-2039	131,300	47,100	178,400		
2040-2044	128,100	14,758	142,858		
Total	\$ 642,800	\$ 735,858	\$1,378,658		

10. Joint Ventures

The Fire and Ambulance Department is under the joint supervision of the Township of Wright and the Village of Waldron with the books and records being maintained by the Township of Wright. In this joint venture, firemen's salaries are paid 100% by the Township for fire calls in the Township and 100% by the Village for fire calls in the Village. To the extent that other expenditures exceed operating revenues, the Township pays 2/3 of these costs and the Village pays 1/3 of these costs.

11. Segment Information – Enterprise Funds

The government issued revenue bonds to finance certain improvements to its sewer distribution and treatment systems. Because the Water and Sewer Funds, which are individual funds that account entirely for the government's water distribution and treatment and sewage disposal and treatment activities, are reported as major funds in the fund financial statements, segment disclosures herein are not required.

Required Supplemental Information

Village of Waldron
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget to Actual - General Fund
Year Ended February 28, 2005

	Original Budget	Final Budget	Actual
Revenues:			
Taxes	\$ 73,000	\$ 73,000	\$ 70,317
Intergovernmental	63,920	63,920	66,515
Interest and rentals	3,500	3,500	1,102
Other revenue	21,705	21,705	36,046
Total revenue	<u>162,125</u>	<u>162,125</u>	<u>173,980</u>
Expenditures:			
General government:			
Wages	29,000	29,000	36,170
Supplies	5,500	5,500	3,411
Outside service	7,100	7,100	8,948
Bond and insurance	29,000	29,000	22,725
Printing and publishing	1,200	1,200	734
Utilities	-	-	3,459
Truck and tractor	5,000	5,000	4,831
Heat and fuel	4,500	4,500	2,131
Legal and election	3,000	3,000	1,317
Water and sewer	12,831	12,831	8,353
Building expense	750	750	584
Miscellaneous	15,950	15,950	15,994
Payroll taxes	-	-	2,410
Total general government	<u>113,831</u>	<u>113,831</u>	<u>111,067</u>
Public safety:			
Law enforcement	16,052	16,052	14,991
Fire association	71,500	71,500	6,114
Total public safety	<u>87,552</u>	<u>87,552</u>	<u>21,105</u>
Public works:			
Street lighting	8,300	8,300	8,202
Streets	1,400	1,400	1,205
Sidewalks	4,500	4,500	4,687
Total public works	<u>14,200</u>	<u>14,200</u>	<u>14,094</u>
Recreation and Culture - Library	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>
Capital outlay	<u>2,000</u>	<u>2,000</u>	<u>75</u>
Total expenditures	<u>220,583</u>	<u>220,583</u>	<u>149,341</u>
Net Changes in Fund Balances	(58,458)	(58,458)	24,639
Fund Balances - Beginning of Year	<u>221,422</u>	<u>221,422</u>	<u>221,422</u>
Fund Balances - End of Year	<u>\$ 162,964</u>	<u>\$ 162,964</u>	<u>\$ 246,061</u>

Other Supplemental Information

Village of Waldron
Schedule of Bonded Indebtedness
February 28, 2005

Sewage Disposal System Revenue
Bonds, Series 2003

Date of Issue	Amount of Issue	Interest Rate	Date of Maturity	Fiscal Year		Bonds Outstanding June 30, 2005
				Interest Requirements	Principal Requirements	
June 17, 2003	\$ 649,000	4.500%	05/01/06	\$ 28,926	\$ 6,300	\$ 6,300
		4.500%	05/01/07	28,643	6,300	6,300
		4.500%	05/01/08	28,359	6,400	6,400
		4.500%	05/01/09	28,071	7,500	7,500
		4.500%	05/01/10	27,734	7,500	7,500
		4.500%	05/01/11	27,396	7,600	7,600
		4.500%	05/01/12	27,054	7,700	7,700
		4.500%	05/01/13	26,708	8,800	8,800
		4.500%	05/01/14	26,312	8,800	8,800
		4.500%	05/01/15	25,916	8,900	8,900
		4.500%	05/01/16	25,515	10,000	10,000
		4.500%	05/01/17	25,065	10,100	10,100
		4.500%	05/01/18	24,611	10,200	10,200
		4.500%	05/01/19	24,152	11,300	11,300
		4.500%	05/01/20	23,643	11,400	11,400
		4.500%	05/01/21	23,130	12,500	12,500
		4.500%	05/01/22	22,568	12,600	12,600
		4.500%	05/01/23	22,001	13,700	13,700
		4.500%	05/01/24	21,384	13,800	13,800
		4.500%	05/01/25	20,763	15,000	15,000
		4.500%	05/01/26	20,088	15,100	15,100
		4.500%	05/01/27	19,409	16,200	16,200
		4.500%	05/01/28	18,680	16,400	16,400
		4.500%	05/01/29	17,942	17,500	17,500
		4.500%	05/01/30	17,154	17,700	17,700
		4.500%	05/01/31	16,358	18,900	18,900
		4.500%	05/01/32	15,507	20,000	20,000
		4.500%	05/01/33	14,607	21,200	21,200
		4.500%	05/01/34	13,653	21,400	21,400
		4.500%	05/01/35	12,690	22,600	22,600
		4.500%	05/01/36	11,673	23,800	23,800
		4.500%	05/01/37	10,602	25,000	25,000
		4.500%	05/01/38	9,475	26,300	26,300
		4.500%	05/01/39	8,294	27,500	27,500
		4.500%	05/01/40	7,056	28,700	28,700
		4.500%	05/01/41	5,765	30,000	30,000
		4.500%	05/01/42	4,413	31,300	31,300
		4.500%	05/01/43	3,004	32,600	32,600
		4.500%	05/01/44	1,537	34,200	34,200
						<u>\$ 642,800</u>

September 4, 2005

Members of Village Council
Village of Waldron
Waldron, Michigan

We have audited the financial statements of the Village of Waldron for the year ended February 28, 2005, and have issued our report thereon dated September 4, 2005. In planning and performing our audit of the general purpose financial statements of the Village, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control.

The Management of the Village of Waldron is responsible for establishing and maintaining effective internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control. The objectives of internal control are to provide the Council with a reasonable but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with the Council's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of the inherent limitations in any system of internal control, errors and irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluations made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion of the system of internal accounting control of the Village taken as a whole. However, our study and evaluation disclosed no conditions that we believe to be a material weakness.

Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of the Village. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Our Responsibility under Generally Accepted Auditing Standards (Continued)

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Village's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the current year. We noted no transactions entered into by the Village during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There was no material estimates recorded in the current year.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Village's financial reporting process (that is, cause future financial statements to be materially misstated). There were no significant audit adjustments recorded at year-end.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Village's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information and the attached memorandum is intended solely for the use of the Village Council and management of the Village and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

Village of Waldron
Comment and Recommendations

Uniform Chart of Accounts

The Village is currently not utilizing and maintaining the uniform chart of accounts as required for local units of government in the State of Michigan. In order to bring the Village into compliance, we recommend that the standard chart of accounts be adopted and utilized as required. Implementation of your new general ledger system will assist in meeting this requirement.

Budgets

Special Revenue Funds require an annual budget. No budget was adopted for the Major and Local Street Funds. Both of these are considered Special Revenue Funds. A budget should be adopted for the next fiscal year.

Audit Reports

We have filed the appropriate copies of your February 28, 2005 audit reports to the State of Michigan for you.

Segregation of Duties

Substantially all of the accounting and financial management functions of the Village are performed by two individuals, the Village Clerk and the Village Treasurer, both of which are elected positions. While the size and resources of the Village are limited in terms of providing adequate separation of duties, the Council should be mindful of this condition and, where possible, establish reasonable control procedures.